

# Labour National Policy Forum 2023

## Submission on Delivering growth March 2023



### Summary

The life sciences and biotech sector plays a significant part in furthering many of the Labour Party's aims, including rebooting economic growth, delivering Net Zero, providing high-wage jobs and levelling-up opportunities across all parts of the UK, and improving the health of the nation. Our sector is reliant on innovation led by start-ups, which must progress through a long and expensive R&D and growth pipeline. A supportive science and technology policy is critical to their success, as is access to long-term, patient capital.

We engaged closely with Lord Jim O'Neill's review and fully support its conclusions and recommendations. We strongly encourage the Labour Party to adopt them in full. Furthermore, we encourage the Labour Party to support Innovate UK's work to drive early-stage R&D and innovation with an expanded budget, which, through sector-specific funding, will allow the next Labour Government to focus on strategically important areas of science and technology, like life sciences.

### About the UK life sciences and biotech sector

We represent a growing industry of the future, one in which the UK truly leads the world. Our members are largely focused on developing new medicines and improving healthcare, but many are applying the power of biology to other challenges, such as replacing fossil fuels and feeding the world without environmentally-damaging, intensive agriculture. The sector plays a significant part in furthering many of the Labour Party's aims, including rebooting economic growth, delivering Net Zero, providing high-wage jobs and levelling-up opportunities across all parts of the UK, and improving the health of the nation.

The strength of the sector is in part the result of the support received from successive governments over decades through well-targeted policy and regulation, including R&D tax credits and the Technology Strategy Board, now called Innovate UK, both introduced between 1997 and 2009.

Government figures show there are over 6,548 businesses in the UK life sciences industry, 70-80% of which are SMEs.<sup>1</sup> These businesses employ over 282,000 people and generated £94.2 billion of

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<sup>1</sup> <https://www.gov.uk/government/statistics/bioscience-and-health-technology-sector-statistics-2021/bioscience-and-health-technology-sector-statistics-2021>

turnover in 2021. The number of businesses and the number of sites operated by these businesses have both seen an upward trend since 2009, with 23% more businesses and 32% more sites operating in 2021 compared to 2009.

## A Labour science and technology policy should focus on start-ups and scale-ups

Life science start-ups and scale-ups are the driving force of innovation in healthcare, with the majority of new medicines in the global pipeline discovered and developed by these emerging companies. Other science and technology-led industries are similar.

In many cases, multinational companies play the crucial but often supporting role in the later stages of the development process, although an increasing number of smaller companies are succeeding in independently taking a medicine all the way from discovery to market, such as Oxford-based Immunocore.<sup>2</sup> As a result, emerging life science and biotech companies represent 65% of the global drug development pipeline with an additional 7% being developed by them in partnership with larger firms.<sup>3</sup>

Life sciences and biotech R&D is a long and expensive process. It typically takes over ten years to develop a medicine and have it approved by regulators. Non-medical products, like bio-plastics and agri-tech face similar timelines. Start-ups require significant venture capital investments to finance this activity (debt is not a viable financing source due to the risk of R&D/company failure and lack of assets to secure the loan). Without this equity investment, the UK's world-leading science cannot be translated into world-leading companies and products that deliver economic growth and societal benefits. We therefore welcome the Labour Party's focus on start-up financing and strongly support Lord Jim O'Neill's findings.

Equity investment into such emerging companies in the UK has risen dramatically over the past decade, creating new companies and jobs, and accelerating innovation. In 2012, life science spin-outs, start-ups and SMEs raised £286 million in equity finance. This rose to £4.5 billion by 2021, but as fallen back to £1.7 billion in 2022 as a result of the global economic uncertainty hitting investment in all sectors.<sup>4</sup> As a result of this increase in venture capital investment, the UK accounts for 35% of all life science start-ups created in Europe since 2012.<sup>5</sup>

This growth is in large part the result of support received from successive governments over decades through well-targeted science and technology policy and regulation. It also demonstrates the UK's potential to grow and succeed in innovative industries of the future if that policy is right.

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<sup>2</sup> <https://ir.immunocore.com/news-releases/news-release-details/uk-medicines-and-healthcare-products-regulatory-agency-mhra>

<sup>3</sup> <https://www.iqvia.com/insights/the-iqvia-institute/reports/emerging-biopharma-contribution-to-innovation>

<sup>4</sup> <https://biotechfinance.org/>

<sup>5</sup> <https://www.mckinsey.com/industries/life-sciences/our-insights/biotech-in-europe-a-strong-foundation-for-growth-and-innovation>

However, the volatility in access to finance shows how fragile this success sometimes can be, and the need for continuous and committed support from government.

## Implement *Start-Up, Scale-Up*

We engaged closely with Lord Jim O'Neill's review and fully support its conclusions and recommendations. We strongly encourage the Labour Party to adopt them in full.

While we support all its recommendations, we would prioritise the following:

**Unlocking institutional investment and patient capital:** We have studied the successful French Tibi scheme carefully and believe that it has strong potential to be translated into the UK context to unlock institutional capital for the UK's innovative start-ups and scale-ups. If championed by a future Labour government, it will enable engagement and understanding between institutional investors and VCs and allow them to overcome the remaining obstacles to facilitate new flows of capital.

**Transforming the British Business Bank:** The British Business Bank and its subsidiary British Patient Capital (BPC) are crucial pillars in the UK's policy support for the UK's VC ecosystem. However, we do perceive a lack of flexibility and risk-taking in BPC's investment decisions and recommend Labour evaluates BPC's mandate to ensure it is appropriately aligned with an industrial strategy focused on supporting highly-innovative and disruptive businesses. Most importantly, it is vital that a future Labour government maintains long-term support for BPC. Investing in life sciences requires specific expertise; BPC must be appropriately resourced to be able to operate with the knowledge and speed of private investors if it is to be an effective and complementary player in the UK VC ecosystem.

**Incentivising investment and entrepreneurship:** Labour should maintain and build on existing incentives, such as SEIS, EIS and the R&D tax credit system, to ensure investors and firms have the best possible incentives for growth. All could be more appropriately targeted to the UK's most R&D intensive businesses to ensure taxpayers' money is spent as effectively as possible. R&D tax credits are the most important and effective policy lever to support science and technology businesses and must be continued and made more generous to support start-ups and scale-ups

## Strengthen Innovate UK to support science and technology

A key institution for life sciences and biotech start-ups is Innovate UK. It provides R&D grants and guidance and support to companies to ensure they are able to innovate and bring their products to market. The UK's innovation agency provides grants intended to address market failures by supporting R&D that is too risky to be commercially viable for an SME. By de-risking pioneering technologies in the life sciences sector, grants plays a vital role in attracting much needed private investment and fostering growth. In the first 12 years since being established by the Labour

government, Innovate UK generated up to £16 billion in Gross Value Added (GVA) for the UK economy and 70,000 jobs from investing £2.2 billion.<sup>6</sup>

Sector-specific grant funding from Innovate UK is a valuable tool for the government to support sectors identified as critical in an industrial strategy, without ‘picking winners’ by favouring specific technologies, approaches or companies. Unlike other funding streams, Innovate UK’s Biomedical Catalyst (BMC) programme is only available to SMEs and funds ideas that companies have come up with themselves, regardless of what aspect of improving health they are aiming to target.

This complements mission-based funding streams and provides a unique benefit to start-ups looking to fund their own ideas. It also targets the earliest phase of R&D, including translation of academic research, where there remains a funding gap. Recent independent analysis from IPSOS Mori showed the BMC, which has been operating with varied budgets for almost a decade, generates £4.72 in business value for money for every £1 invested. The programme leverages £5 of private investment for every £1 of public expenditure, vastly outperforming other public funding programmes which, on average, leverage £1.40 of private investment for every £1 of public investment.<sup>7</sup> The next Labour government should commit to increasing the budget of both Innovate UK and specifically the BMC to support both mission-led and business-led innovation within start-ups.

## About the BIA

The BioIndustry Association (BIA) is the voice of the innovative life sciences and biotech industry, enabling and connecting the UK ecosystem so that businesses can start, grow and deliver world-changing innovation.

Our members include start-ups, biotechnology and innovative life science companies, large pharmaceutical companies, universities, research centres, tech transfer offices, incubators and accelerators, and a wide range of life science service providers: investors, lawyers, IP consultants, and IR agencies. We promote an ecosystem that enables innovative life science companies to start and grow successfully and sustainably.

**For any further information on the contents of this submission please contact Dr Martin Turner, Head of Policy and Public Affairs, by emailing [mturner@bioindustry.org](mailto:mturner@bioindustry.org)**

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<sup>6</sup> Innovate UK (2019) ‘Delivery Plan 2019’, p.2: <https://www.ukri.org/wp-content/uploads/2020/09/INUK-250920-DeliveryPlan2019.pdf>

<sup>7</sup> HM Government (2019) ‘Biomedical Catalyst impact evaluation’: <https://www.gov.uk/government/publications/biomedicalcatalyst-impact-evaluation>